



NOTES FROM THE:

Auditor General of the Air Force

by Mr Jackie R. Crawford

Changing Approach for Chief Financial Officers (CFO) Act Audits

The Air Force has made considerable progress towards achieving auditable financial statements. Of particular note, our audits show the General Fund Statement of Budgetary Resources (SBR) will likely become the first statement with a positive opinion. Two of three major elements of this statement now appear accurately presented, and the financial community has taken significant steps to improve the third area (accuracy of obligation balances). Because of these successes, Secretary Hale and I, along with the DoD Assistant Inspector General for Auditing, agreed an opportunity existed to consider a Certified Public Accountant (CPA) for the General Fund audit.

The Initial Contract was awarded on 25 September 2000 and requires the CPA firm to observe and become familiar with our fiscal year 2000 General Fund audit, concentrating on the SBR processes and validating our assessment of the beginning fiscal year 2001 obligation balance. Further, the CPA firm will gain a working knowledge of SAF/FM and DFAS statement preparation as well as the processes and system of controls used to ensure data accuracy. This initial effort will culminate in the contractor preparing audit plans and cost estimates for their potential performance of an opinion engagement in fiscal years 2001 and 2002. Based on successful contractor results and a positive evaluation of their proposals, contract options can be exercised authorizing the CPA firm to perform the General Fund audit for the next two years. The decision on the contract options should occur early in calendar year 2001.

Audit Strategy under the contract approach still calls for AFAA auditors to accomplish significant amounts of supporting work underpinning the CPA firm's overall audit. Further, we anticipate AFAA continuing to accomplish the Working Capital Fund audit for several more years. Additionally, many systems audit reviews will be required to cover the development and renovation of accounting feeder systems. Based on these workloads, AFAA will continue to more than fully utilize all resources provided for CFO work.

Accounting Systems will maintain center stage. As noted above, we plan to continue our efforts that assist management in developing new or revamped accounting feeder systems. Moreover, we will focus

on compliance with accounting standards and incorporation of adequate controls. Improved systems are very critical in the Air Force's drive to achieve and sustain auditable financial statements and, just as important, in providing commanders and other users reliable, useful, and timely financial data needed in decision making. For statement preparers, properly functioning systems should automate recording and reconciling data and alleviate the external manual processes currently used to create financial statement data. The implementation of effective systems will also greatly reduce financial statement audit costs (for a CPA firm and/or AFAA). Specifically, once compliant systems are in place and functioning properly, audit sampling and testing can be greatly reduced.

Processes and Internal Controls will also remain important. Good internal controls ensure the protection of assets as well as accurate and useful financial data by providing the appropriate environment. Key internal controls include features like separation of duties, adequacy of documentation to support transactions and balances, and proper procedures for safeguarding assets. An important goal permeating both our financial and performance audits is helping management maintain an appropriate control environment as well as needed controls within each critical system and/or process. Also, proper application of accounting standards and good discipline in the recording/reporting processes are key to accurate financial statements. I expect a continued focus on the process and controls in financial statement areas such as equipment inventory, contingent liabilities, and weapon system values as the Air Force presses toward fully auditable statements.

In summary, the option of a CPA firm providing the financial statement opinion offers opportunities. First, the CPA firm will bring extensive knowledge of financial accounting solutions and successes from other government agencies and private sector organizations. Secondly, this approach will enable the AFAA to redeploy some resources back to important economy/efficiency audits which have been curtailed because of the huge CFO workload. Clearly, a number of factors including affordability will come to play in the final decisions on the CPA option, but at this juncture, the opportunity looks promising.